

Message Text

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C O N F I D E N T I A L JIDDA 6339

EXDIS

E.O.: 11652: GDS

TAGS: PFOR, ENRG, MASS, SA

SUBJ: ESCALATING DEFENSE COSTS AND PRICE OF OIL

REF : A. JIDDA 6309; B. USMTM 291520Z OCT 74

BEGIN SUMMARY: INCREASING DEFENSE COSTS ARE ALMOST CERTAIN
TO WEAKEN SAG RESOLVE TO WORK FOR LOWER PRICE OF OIL.

END SUMMARY.

1. COST INCREASES IN NAVAL FACILITIES PORTION OF SNEP (REFS
A & B) MAY WELL CONSTITUTE DEATH KNEEL TO OUR ATTEMPTS TO
PERSUADE SAG TO PUSH FOR LOWER OIL PRICES. WHEN WE PRESENTED
OUR "MASTER PLAN" COST ESTIMATES TO SAG IN SEPT 1973, OUR
ESTIMATE FOR FACILITIES CONSTRUCTION WAS \$354,000,000. ON
OCT 28, 1974, THE CORPS OF ENGINEERS INFORMED THE ACTING
COMMANDER OF THE ROYAL SAUDI NAVY THAT IT IS NOW ESTIMATED
THAT THE FACILITIES ALONE WILL COST \$999,846,000. OF THIS
INCREASE, SOMETHING OVER \$2000,000,000 IS ATTRIBUTABLE
TO SAG DESIRES TO EXPAND FACILITIES AT JIDDA. BULK OF
INCREASE, HOWEVER, RESULTS FROM INCREASES IN COST OF BASIC
CONSTRUCTION MATERIALS, WHICH IN MANY CASES HAVE INCREASED
OVER 100 PERCENT DURING THE TWELVE MONTHS FROM JULY 1973 TO
JULY 1974.

2. IN ADDITION, WE HEAR THAT COSTS FOR SHIP CONSTRUCTION,
SPARE PARTS, AND SHORE BASED COMMUNICATIONS, EARLIER
ESTIMATED AT \$464,938,000, ARE ALSO INCREASING DRASTICALLY,
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SO THAT THE \$850 MILLION SNEP PROGRAM TO WHICH SULTAN

AGREED IN MARCH 1974 MAY IN THE END COST TWO BILLION DOLLARS. WASHINGTON WILL RECALL THAT A MAJOR EFFORT WAS REQUIRED TO EXPLAIN TO SULTAN WHY COST OF SHIPS AND FACILITIES HAD RISEN TO \$850 MILLION FROM MARCH 1973 ESTIMATE OF \$596 MILLION, WHICH HAD ITSELF BEEN PRECEDED BY THE LEAHY REPORT ESTIMATE OF 1970 ESTIMATING COST OF 19 SHIPS AND FACILITIES AT JIDDA AND JUBAYL AT \$135-150 MILLION.

3. TO OBTAIN ADDITIONAL FUNDS BEYOND THE PRESENTLY AUTHORIZED \$850 MILLION, SULTAN WILL BE FORCED TO RETURN TO COUNCIL OF MINISTERS. HE WILL BE ASSISTED IN HIS REQUEST BY WELL-DOCUMENTED JUSTIFICATION OF PRICE INCREASES PREPARED FOR RSN BY CORPS OF ENGINEERS. EFFECT OF PRESENTATION WILL BE TO PROVIDE MINISTER OF FINANCE PRINCE MUSA'ID AND MINISTER OF PLANNING HISHAM NAZER WITH CLEAREST, MOST DRAMATIC CASE YET FOR OPPOSING ANY REDUCTION IN THE PRICE OF OIL, WHILE WORLD PRICES OF BASIC CONSTRUCTION MATERIALS CONTINUE TO INCREASE AT SUCH ASTOUNDING RATES. YAMANI WILL NOT STAND A CHANCE. NOR ARE OUR OWN PLEAS, EVEN TO SYMPATHETIC EARS, LIKELY TO CARRY MUCH WEIGHT WHEN PLACED IN BALANCE AGAINST SUCH PRICE RISES IN GOODS AND MATERIAL NEEDED BY SAG TO CARRY OUT ITS PROGRAMS OF MODERNIZATION AND INDUSTRIALIZATION. WE HAD PERHAPS BEST START ACCOMMODATING OURSELVES TO THIS FACT.
AKINS

NOTE BY OC/T: EXDIS CAPTION ADDED PER S/S-O, MS ELTZ.

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